

**DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

For the years ended December 31, 2012 and 2011

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Dickinson County, Kansas
Rural Water District No. 2
Carlton, Kansas 67448

We have audited the accompanying financial statements of the business-type activities of Dickinson County Rural Water District No. 2, as of and for the years ended December 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion for the year ended December 31, 2012 and unmodified opinion for the year ended December 31, 2011.

Basis for Qualified Opinion

Management has not adopted a process for removing items from inventory as they are utilized and has not performed a year-end inventory for a number of years. Accounting principles generally accepted in the United States of America require that inventory should be recorded at cost which includes recording the direct cost of purchasing the inventory as well as subtracting the inventory at cost as it is utilized under a methodology adopted by the District and consistently applied. Inventory has been recorded at cost as it is purchased but items are not removed from inventory on the financial statements as they are used, resulting in an over statement of inventory assets and understatement of expenses and/or capital assets on the financial statements. The amount by which this departure would affect the assets, net position, and changes in net position is not reasonably determinable for the year ended December 31, 2012, but is considered to be material.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the 'Basis for Qualified Opinion' paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Dickinson County Rural Water District No. 2, as of December 31, 2012 and 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 and budgetary comparison information on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pottberg, Gassman & Hoffman, Chtd.

POTTBERG, GASSMAN & HOFFMAN, CHARTERED

Abilene, Kansas
May 9, 2013

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Dickinson County Rural Water District No. 2 (District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2012. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statement of cash flows reverses the accruals to show the effect of the annual transactions on the available cash balance. Both the financial statements and supplemental information are shown comparative to the prior year.

Total funds spent for Capital Improvement Projects in 2012 were \$5,528 for new computers and software and \$4,500 for a new engine for the ditch witch which was later sold for \$27,500 resulting in a loss of \$13,245. Additional funds of \$67,334 were spent on infrastructure improvements. During 2012, the District continued with their mandatory conservation measures. These directives have not been lifted since their inception in 2008 and most likely will not be in the near future. Drought conditions of the past few years have depleted the water table in Abilene's well field. It will take considerable rainfall to replenish the water supply. Annual water usage in 2012 was 52,380,000 gallons, an increase in usage of 35,000 gallons from 2011. Three new benefit units were added in 2012 and seven forfeited for a total of 678 benefit units in the District.

At the August 2011 monthly meeting of the Board of Directors, members of the Board approved the Phase III project. This construction will provide a second connection with the City of Abilene, the District's source of water. An additional 6 miles of 8" HDPE main distribution water line will allow for better water pressure and loop both river connections. If one connection should fail, patrons would still have water service while repairs are being made. The additional 2 miles of 8" HDPE main distribution line is replacement line. The District has obtained a twenty year loan at 2.43% from the Kansas Public Water Supply Loan Fund to fund our Phase III project at a cost not to exceed \$1,100,720. The project is currently in the design phase.

In 2012, the District obtained \$420,000 of Series E, 2012 Revenue Bonds to refund the USDA Rural Development Loan. A reserve amount of \$32,426 is required to be maintained until the debt is paid in full.

In an effort to be frugal, operating costs were kept to a minimum in 2012.

The board has designated \$567,638 of unrestricted net assets for capital improvements and \$32,426 for debt payment. Capital contributions are benefit units sold during 2012. Overall, there was an increase in our cash assets of \$36,802.

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's commitment to public accountability. If you have any question about this report or would like to request additional information, contact the District office at 320A Main Avenue, Carlton, KS 67448.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
DECEMBER 31,

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and Cash Equivalents		
Checking Accounts	\$ 4,642	\$ 6,741
Money Market Accounts	482,986	444,880
Certificate of Deposit	80,011	79,216
Total Cash and Cash Equivalents	<u>567,639</u>	<u>530,837</u>
Accrued Interest Receivable	-	1,719
Accounts Receivable - Net	45,736	32,858
Inventory	27,958	22,308
Total Current Assets	<u>641,333</u>	<u>587,722</u>
Noncurrent Assets		
Construction in Progress	1,254	-
Capital Assets		
Water System and Equipment	3,231,041	3,170,408
Abilene Treatment Plant	924,194	924,194
Navarre Project	263,975	263,975
Westar Project	56,170	56,170
Office Equipment and Vehicles	52,366	125,366
Accumulated Depreciation	<u>(2,470,059)</u>	<u>(2,390,103)</u>
Total Capital Assets	<u>2,058,941</u>	<u>2,150,010</u>
Certificate of Deposit - Note Reserve	-	28,702
Certificate of Deposit - Bond Reserve	32,426	-
Total Noncurrent Assets	<u>2,091,367</u>	<u>2,178,712</u>
TOTAL ASSETS	<u>\$ 2,732,700</u>	<u>\$ 2,766,434</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 1,125	\$ 11,358
Payroll Taxes Payable	3,146	2,533
Water Protection and Clean Water Fees Payable	697	705
Sales Tax Payable	9	37
Accrued Interest Payable	1,035	-
Compensated Absences	1,310	370
Current Portion of Note Payable	15,000	7,471
Total Current Liabilities	<u>22,322</u>	<u>22,474</u>
Noncurrent Liabilities		
USDA Note Payable	-	393,544
Bond Payable - Series E 2012 (net of discount)	404,766	-
Less Current Portion	<u>(15,000)</u>	<u>(7,471)</u>
Total Noncurrent Liabilities	<u>389,766</u>	<u>386,073</u>
Total Liabilities	<u>412,088</u>	<u>408,547</u>
Net Position		
Net Investment in Capital Assets	1,654,175	1,756,466
Restricted for Note Reserve	-	26,004
Restricted for Bond Reserve	32,426	-
Unrestricted	634,011	575,417
Total Net Position	<u>2,320,612</u>	<u>2,357,887</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,732,700</u>	<u>\$ 2,766,434</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Monthly Minimum	\$ 256,666	\$ 236,620
Water Revenues	226,134	183,891
TOTAL OPERATING REVENUES	<u>482,800</u>	<u>420,511</u>
OPERATING EXPENSES		
Analysis of Water System	359	366
Clean Drinking Water Fee	1,544	1,561
Director's Costs	-	346
Dues and Subscriptions	793	798
Electricity	17,147	17,596
Employee Benefits	12,864	7,285
Insurance	14,600	11,871
Lease Expense	7,400	-
Legal, Accounting and Engineering Fees	6,519	11,769
Maintenance Supplies	2,043	1,126
Miscellaneous	146	71
Office Expense	4,251	3,225
Payroll Taxes	11,916	9,702
Postage	4,345	4,126
Printing	1,521	2,206
Rent and Lease Expense	2,000	2,000
Repairs and Maintenance	47,060	35,828
Salaries and Wages	126,432	104,492
Telemetry System	962	1,472
Telephone	2,242	1,759
Training	605	1,607
Travel	226	642
Truck Expense	24,788	17,088
Water Purchases - Abilene	96,877	95,978
TOTAL OPERATING EXPENSES	<u>386,640</u>	<u>332,914</u>
INCOME FROM OPERATIONS BEFORE DEPRECIATION	96,160	87,597
Depreciation	(116,831)	(118,963)
OPERATING INCOME (LOSS)	<u>(20,671)</u>	<u>(31,366)</u>
NON-OPERATING REVENUES AND EXPENSES		
Interest Income	1,661	4,931
Other Income	11,070	15,685
Other Expense	(1,892)	(196)
Bond Issuance Costs	(14,412)	-
Gain (Loss) on Sale of Assets	(13,245)	3,585
Interest Expense	(15,675)	(18,877)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(32,493)</u>	<u>5,128</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(53,164)	26,238
Capital Contributions	15,889	5,553
CHANGE IN NET POSITION	(37,275)	20,685
NET POSITION, BEGINNING	2,357,887	2,378,572
NET POSITION, ENDING	<u><u>\$2,320,612</u></u>	<u><u>\$2,357,887</u></u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 469,922	\$ 419,722
Cash Payments to Suppliers for Goods and Services	(268,995)	(221,140)
Cash Payments to Employees and Professional Contractors for Services	(132,011)	(116,261)
Net Cash Provided (Used) by Operating Activities	<u>68,916</u>	<u>82,321</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(66,387)	(25,541)
Sale of Equipment	27,380	4,650
Proceeds from Bond Issue	18,166	(7,127)
Principal Paid on Bond	(5,000)	
Interest Paid on Bonds and Notes	(13,991)	(18,877)
Bond Issuance Costs	(14,412)	
Other Capital Activities	11,818	15,489
Bond and Note Reserve Funds	(7,238)	(342)
Capital Contributions	15,889	5,553
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,775)</u>	<u>(26,195)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	1,661	4,931
Net Cash Provided (Used) by Investing Activities	<u>1,661</u>	<u>4,931</u>
Net Increase (Decrease) in Cash and Cash Equivalents	36,802	61,057
Cash and Cash Equivalents at January 1	530,837	469,780
Cash and Cash Equivalents at December 31	<u>\$ 567,639</u>	<u>\$ 530,837</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	\$ 96,160	\$ 87,597
Changes in Receivables	(12,878)	(789)
Changes in Inventory	(5,650)	(2,626)
Changes in Payables	(8,716)	(1,861)
Net Cash Provided by Operating Activities	<u>\$ 68,916</u>	<u>\$ 82,321</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rural Water District No. 2, Dickinson County, Kansas, was declared incorporated by the Board of Commissioners of Dickinson County, Kansas, on April 21, 1972 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the areas of the District. The following is a summary of the District's significant accounting policies.

Basis of Accounting

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is reported on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The District performs proprietary activities and therefore is subject to all Governmental Accounting Standards Board (GASB) pronouncements (GASB 34 and 65 have been implemented) as well as Financial Accounting Standards Board (FASB) statements and interpretations, and Accounting Principles Board (APB) opinions that do not conflict with or contradict GASB pronouncements.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as reimbursements for joining the water District.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all bank deposit accounts, money market accounts and certificates of deposits classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties. At December 31, 2012 and 2011, cash and cash equivalents consisted of demand and money market accounts and a certificate of deposit with local financial institutions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets purchased for \$500 or more are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of the assets range from 5 to 50 years.

Inventory

Inventory is stated at cost and consists of supplies to set water meters, and items over \$100 when purchased.

Noncurrent Assets

Non current assets primarily include construction in process, capital assets, and reserve for bonds and notes. The amounts placed in the reserve often exceed the amount legally required to be restricted as they include interest earned and other monies designated by the board to be set aside to meet future obligations. The amounts legally required to be restricted are included in the bond and easement payable footnotes.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Accounts Payable

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

Recently Issued and Adopted Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 provides guidance for reporting items previously reported as assets or liabilities as deferred outflows of resources (expenses) or deferred inflows of resources (revenues.) Also, with the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt; they should instead be recognized as an expense in the period incurred. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early application is encouraged. Accounting changes to comply with this statement should be applied retroactively by restating financial statements for all periods presented. The District elected to early implement for these financial statements.

Taxes

The District is exempt from federal and state income taxes.

NOTE 2 – DEPOSITORY SECURITY

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods." All deposits were legally secured at December 31, 2012 and 2011.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITORY SECURITY (CONTINUED)

At December 31, 2012 the District's carrying amount of deposits was \$600,065 and the bank balance was \$600,976. Deposits at one bank exceeded the Federal Depository Insurance Corporation (FDIC) limit and the deposits in excess of FDIC limits was more than 5% of total bank balances, which results in a concentration of credit risk per GASBS 40, paragraph 11. Of the bank balance, \$251,097 was covered by federal depository insurance and \$349,879 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2012:

<u>Financial Institution</u>	<u>Demand Deposits on 12/31/2012</u>	<u>Time Deposits on 12/31/2012</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Central National Bank	490,956	108,923	250,000	349,879	-
Pinnacle Bank	1,097	-	1,097	-	-

At December 31, 2011 the District's carrying amount of deposits was \$559,539 and the bank balance was \$561,877. Deposits were held at one bank and exceeded the Federal Depository Insurance Corporation (FDIC) limit by \$311,877 which was more than 5% of total bank balance, which results in a concentration of credit risk per GASBS 40, paragraph 11. Of the bank balance, \$250,000 was covered by federal depository insurance and \$311,877 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2011:

<u>Financial Institution</u>	<u>Demand Deposits on 12/31/2011</u>	<u>Time Deposits on 12/31/2011</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Central National Bank	453,960	107,917	250,000	311,877	-

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowance for doubtful accounts. Using past payment history and the aging report, the allowances as of December 31, 2012, and 2011 have been determined to be zero.

The following is an aging of accounts receivable for the District at December 31, 2012 and 2011:

<u>Accounts Receivable</u>	<u>Total</u>	<u>Current</u>	<u>Over 30 Days</u>
2012	\$45,736	\$42,894	\$2,842
2011	\$32,858	\$32,098	\$760

NOTE 4 – CAPITAL ASSETS

Financial statements issued for 1974 and prior periods reported only cash receipts and disbursements for the period covered. Historical costs for the District and financing received from grants and land owners were not accumulated. The total cost of the water system's depreciable property was determined to be \$2,145,359. This cost is being depreciated over fifty (50) years useful life, which began on October 1, 1975. Other assets are being depreciated with useful lives ranging from five years for vehicles and computers to 50 years for water distribution system upgrades and additions.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital Asset Activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets not Being Depreciated:				
Construction in Progress	\$ -	1,254	-	\$ 1,254
Capital Assets Being Depreciated:				
Abilene Treatment Plant	924,194	-	-	924,194
Office Equipment	12,522	-	-	12,522
Vehicles & Equipment	112,844	4,500	(77,500)	39,844
Distribution System	3,490,553	60,633	-	3,551,186
Total Capital Assets Being Depreciated	4,540,113	65,133	(77,500)	4,527,746
Less Accumulated Depreciation For:				
Abilene Treatment Plant	(243,371)	(18,484)	-	(261,855)
Office Equipment	(6,974)	(1,368)	-	(8,342)
Vehicles and Equipment	(42,866)	(9,554)	36,875	(15,545)
Distribution System	(2,096,892)	(87,425)	-	(2,184,317)
Total Accumulated Depreciation	(2,390,103)	(116,831)	36,875	(2,470,059)
Net Being Depreciated	2,150,010	(63,698)	40,625	2,057,687
Total Capital Assets	\$ 2,150,010	(100,406)	28,179	\$ 2,721,632

Capital Asset Activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets Being Depreciated:				
Abilene Treatment Plant	924,194	-	-	924,194
Office Equipment	6,994	5,528	-	12,522
Vehicles & Equipment	143,571	10,039	(40,766)	112,844
Distribution System	3,469,602	20,951	-	3,490,553
Total Capital Assets Being Depreciated	4,544,361	36,518	(40,766)	4,540,113
Less Accumulated Depreciation For:				
Abilene Treatment Plant	(224,887)	(18,484)	-	(243,371)
Office Equipment	(6,158)	(816)	-	(6,974)
Vehicles and Equipment	(70,160)	(12,407)	39,701	(42,866)
Distribution System	(2,009,636)	(87,256)	-	(2,096,892)
Total Accumulated Depreciation	(2,310,841)	(118,963)	39,701	(2,390,103)
Net Being Depreciated	2,233,520	(82,445)	(1,065)	2,150,010
Total Capital Assets	\$ 2,233,520	(82,445)	(1,065)	\$ 2,150,010

Depreciation expense for years ended December 31, 2012 and 2011 was \$116,831 and \$118,963 respectively.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – BUDGETS AND BUDGETARY ACCOUNTING

The District is not required to adopt a legal budget; therefore, no budgetary comparison is prepared as a financial statement. The Board approves an estimated budget each year per K.S.A. 82a-628, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

NOTE 6 – NOTES PAYABLE

On October 28, 1998, the District financed a forty (40) year mortgage note for \$465,000 with the United States Department of Agriculture, Rural Development. Monthly payments of \$2,167 were being made, which totals to \$26,004 annually. In 2012, the note payable was paid off through issuance of the Series E 2012 Bond listed below. A reserve account of \$26,004 was required to be maintained. The balance segregated in a Certificate of Deposit at Central National Bank in Gypsum was used to cover the new bond reserve.

NOTE 7 – BONDS PAYABLE

On June 15, 2012, the district issued \$420,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series E 2012 with effective interest rates ranging from 1.00% to 4.2%. The new bond issue paid-off the outstanding note with the United States Department of Agriculture, Rural Development. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2012 and maturing in 2035.

2012 Bonds Payable Information:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2013	\$ 15,000	12,420	27,420
2014	15,000	12,270	27,270
2015	15,000	12,120	27,120
2016	15,000	11,895	26,895
2017	15,000	11,670	26,670
2018-2022	75,000	54,150	129,150
2023-2027	80,000	44,775	124,775
2028-2032	100,000	29,550	129,550
2033-2035	<u>85,000</u>	<u>7,980</u>	<u>92,980</u>
Totals	<u>\$ 415,000</u>	<u>\$ 196,830</u>	<u>\$ 611,830</u>

Issuance costs of \$14,412 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$10,000 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2012 was \$266. A bond reserve account of \$32,426 is required to be maintained. \$28,912 is segregated as a Certificate of Deposit at Central National Bank and \$3,514 was in a Money Market account at Pinnacle Bank.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – DEBT SERVICE RATIO

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the year ending:

	<u>12/31/2012</u>
Change in Net Position	\$ (37,275)
Interest Expense	15,675
Depreciation	116,831
Less Capital Contributions	<u>(15,889)</u>
Total Revenue Available for Debt Service	<u>\$ 79,342</u>
Debt Service Payments	<u>21,585</u>
Debt Service Ratio	<u>3.68</u>

Excluded from the debt service payments is the early pay-off of the mortgage note with the United States Department of Agriculture and Rural Development which included \$390,419 in principal and \$915 in interest payments.

NOTE 9 – LONG-TERM DEBT SCHEDULE

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2012.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-12</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-12</u>	<u>Interest Paid In 2012</u>
USDA Note	10-28-98	456,000	393,544	393,544	-	8,624
2012 Bond	06-15-12	<u>420,000</u>	<u>-</u>	<u>5,000</u>	<u>415,000</u>	<u>5,750</u>
Total Indebtedness		<u>\$ 876,000</u>	<u>\$ 393,544</u>	<u>\$ 398,544</u>	<u>\$ 415,000</u>	<u>\$ 14,374</u>

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2011.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-11</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-11</u>	<u>Interest Paid In 2011</u>
USDA Note	10-28-98	456,000	400,671	7,127	393,544	18,877
Total Indebtedness		<u>\$ 456,000</u>	<u>\$ 400,671</u>	<u>\$ 7,127</u>	<u>\$ 393,544</u>	<u>\$ 18,877</u>

NOTE 10 - RETIREMENT PLAN

The district provides annuities for its eligible full-time employees. The District contributes 3% of the employee's salary to their annuity. If employment is terminated, the annuity remains the property of the employee. In 2012 and 2011, the District contributed \$1,303 and \$1,285 respectively to the retirement plan. The annuities are with the Lord Abbott Company.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
CARLTON, KANSAS
DECEMBER 31, 2012

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – LITIGATION AND BOND COVENANTS

There were no legal actions involving the Dickinson District as of December 31, 2012, but the following noncompliance issues with the bond covenants were noted:

- The audit report was completed nine days after the 120 day following yearend requirement.
- USDA Rural Development was noted as the mortgagee on the insurance policy rather than the Kansas Rural Water Finance Authority.

NOTE 12 - COMPENSATED ABSENCES POLICY

The District provides sick leave for their eligible full-time employees at a rate of ½ day per month. These days may be carried forward to future years. If the employment is terminated, the sick leave is lost. Vacation compensation for eligible full-time employees is earned after one year of employment, accumulates, and any unused is paid at termination. After one year, 5 days are earned; for two through twenty years of service 10 days are earned; and for over twenty years, 15 days of vacation are earned. At December 31, 2012 and 2011, the value of accrued vacation was \$1,310 and \$370 respectively.

NOTE 13– DESIGNATIONS OF UNRESTRICTED NET ASSETS

As of December 31, 2012 the Board of Directors has designated a reservation of unrestricted net assets for capital improvements in the amount of \$567,638 and for debt payment in the amount of \$32,426. At December 31, 2011, capital improvements and debt service were designated at \$304,927 and \$28,360 respectively.

NOTE 14 – RISK MANAGEMENT

Dickinson County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

Insurance coverage includes all buildings, standpipes, pumps and telemetry equipment up to \$794,456 (with a \$500 deductible and 90% replacement cost or 90% actual cash value limitation) with premium of \$1,864; general liability of \$1,000,000 for each occurrence with premium of \$3,200; and vehicles, D&O liability, employee dishonesty, inland marine and workers compensation with additional premiums of \$9,536 expiring March 27, 2013.

NOTE 15 – RELATED PARTIES

All the members of the board of directors and all but two employees are water district customers. No material transactions occurred in 2012 or 2011 between the District and the directors and employees. All were current at year-end.

NOTE 16 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2012 to determine the need for any adjustments to and / or disclosures within the audited financial statements. Management has performed their analysis through May 9, 2013, which is the date at which the financial statements were available to be issued. The insurance policies were renewed through March 27, 2014, with the previous mortgagee still listed.

SUPPLEMENTARY INFORMATION

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
BUDGET REPORT - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Monthly Minimum	\$ 257,000	\$ 250,227	\$ (6,773)
Water Revenues	211,000	219,695	8,695
TOTAL OPERATING REVENUES	<u>468,000</u>	<u>469,922</u>	<u>1,922</u>
EXPENDITURES			
Analysis of Water System	500	359	(141)
Audit Fees	6,500	6,075	(425)
Backhoe & Trailer Expense	1,500	1,147	353
Clean Drinking Water Fee	1,500	1,552	52
Dues and Subscriptions	800	793	(7)
Employee Benefits	8,600	10,985	2,385
Engineering Fees and Meter System Support	4,300	-	(4,300)
Insurance	12,000	14,600	2,600
Lease Expense	-	7,400	7,400
Legal Fees	2,000	444	(1,556)
Maintenance Supplies	1,000	2,043	1,043
Maintenance Repairs	15,000	40,751	25,751
Miscellaneous	1,000	174	(826)
Office Expense	3,700	10,159	6,459
One Call	225	1,623	1,398
Payroll Taxes	11,500	11,303	(197)
Postage	4,000	4,345	345
Printing	2,000	1,521	(479)
Pump Maintenance	1,000	-	(1,000)
Rent Expense	2,000	2,000	-
Salaries & Wages	130,000	126,432	(3,568)
Tank Maintenance	14,500	14,453	(47)
Telemetry System	1,850	962	(888)
Telephone	1,950	2,242	292
Training	2,300	605	(1,695)
Travel	1,100	226	(874)
Truck Expense	23,000	24,788	1,788
Utilities	18,000	17,147	(853)
Water Purchases - Abilene	106,000	96,877	(9,123)
TOTAL OPERATING EXPENDITURES	<u>377,825</u>	<u>401,006</u>	<u>23,181</u>
DEBT RETIREMENT:			
Principal Paid	7,127	5,000	2,127
Interest	18,877	13,991	4,886
TOTAL EXPENDITURES	<u>403,829</u>	<u>419,997</u>	<u>16,168</u>
OTHER INCOME (EXPENSES)			
New Benefit Units	-	15,889	15,889
Interest Income	4,000	1,661	(2,339)
Sale of Assets	-	27,380	27,380
Proceeds from Bond Issue	-	18,166	18,166
Other Income and (Expense)	-	4,580	(4,580)
Bond Issuance Costs	-	(14,412)	(14,412)
Capital Improvements	(60,000)	(66,387)	(6,387)
TOTAL OTHER INCOME (EXPENSE)	<u>(56,000)</u>	<u>(13,123)</u>	<u>39,123</u>
INCREASE (DECREASE) IN CASH	<u>\$ 8,171</u>	<u>\$ 36,802</u>	<u>\$ 24,877</u>

The notes to the financial statements are an integral part of these statements.